

## **FISCAL POLICIES SECTION**

The fiscal year 2013 budget continues to provide the municipal and educational services that comprise the fabric of the community and attract residents to West Hartford. We continue to improve the cost effectiveness of these services as well. The budget eliminates two full-time positions in addition to the seventeen (17) that have been eliminated over the last three years. An additional 0.5 full-time position is eliminated by the consolidation of information technology management with the Public Schools. There are continued expected savings from hiring lags in the budget, totaling \$300,000. Operating expenses for fiscal year 2013 decrease \$11,786 or -0.1% despite increases in our MDC contribution (\$200,800), utility expenses (\$59,869) and rising gasoline costs (\$43,700). Expenses are continually reviewed and the budget reflects reductions in our bulky waste contract (\$175,650) by changing the way we pay for the service and solid waste disposal (\$142,077) with the expected negotiation of a contract with a new provider. There again are no capital equipment purchases in the adopted budget. The cost of our bonded debt service continues to fall (\$538,678) reflecting the curtailment of our capital improvement program and the establishment of our debt service reserve fund. The budget also continues the commitment to fund future liabilities for retiree health care and pension costs.

The fiscal year 2013 General Fund budget totals \$237,669,945 and represents an increase of \$10,640,765 or 4.7% from fiscal year 2012. The municipal services portion of the budget totals \$84,728,472, an increase of \$4,636,780 or 5.8% from the current year budget. The education budget totals \$138,769,729, an increase of \$5,942,663 or 4.5%. The capital financing portion of the budget for both municipal and education services is \$14,171,744, an increase from fiscal year 2012 of \$61,322 or 0.4%. Property taxes are the primary source of revenue for municipalities in Connecticut and increases in property tax revenue are generated from growth in the value of taxable property and increases to the tax rate. As a fully developed community, growth in the town's taxable property is through re-use of existing property which has been reduced with the economic climate. The fiscal year 2013 budget also reflects the implementation of the 2011 property revaluation and the new property assessments. The budget will, therefore, impact each property owner differently due to the new property assessments.

Other revenues to finance the fiscal year 2013 budget are impacted by changes made to the Governor's proposed budget last year after the Town had adopted its budget for fiscal year 2012 and the current economy. The Governor's proposed fiscal year 2012 budget included a doubling of the municipal real estate conveyance tax rate, which the Town budgeted as conveyance tax revenue (\$1,000,000). The General Assembly authorized the increase but used the funding to establish a statewide municipal revenue sharing fund, which was not included in the Town's adopted budget. These changes, along with a proposal in the Governor's fiscal year 2013 budget to increase ECS funding to West Hartford by \$900,000, increase State aid by \$1,481,953. This increase, however, is offset by the loss of \$1,000,000 in conveyance tax revenue. The current economy has pushed several revenue estimates for fiscal year 2013 lower than the 2012 adopted estimates as anticipated economic recovery did not materialize. These include conveyance tax revenue (\$200,000) and interest income (\$550,000). All of these changes are not sufficient to provide the necessary revenue to support the cost of maintaining municipal and education services in fiscal year 2013. In order to finance the budget, an increase in current year property tax revenue of \$11,150,562 or 5.7% is required. A mill rate of 35.75 is needed to finance the remaining property tax revenue, representing a decrease of 3.69 mills or 9.4% from the current mill rate.

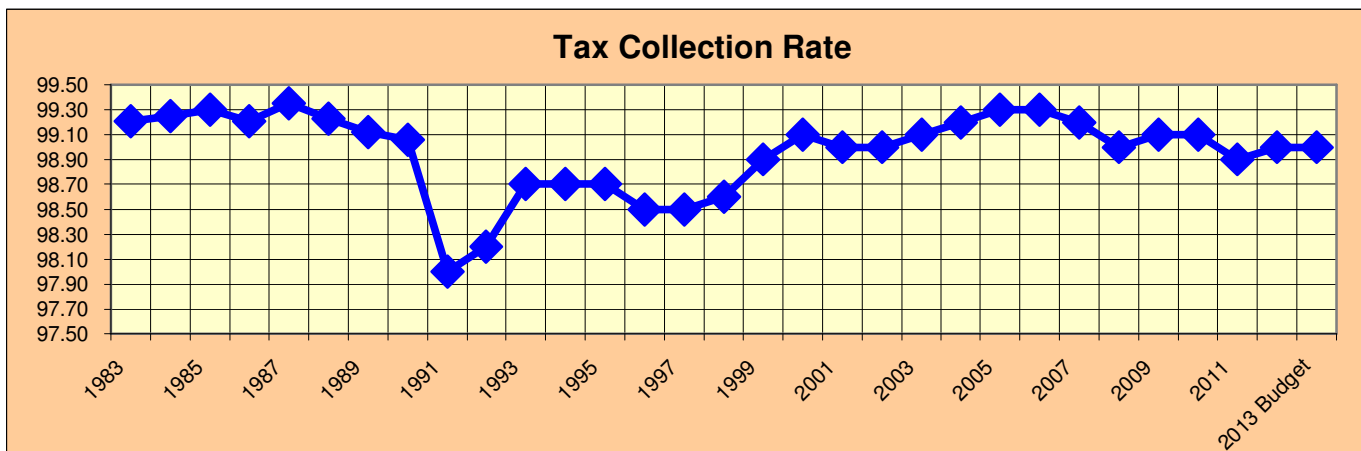
**SUMMARY OF REVENUES**

	FY 2012 <u>Adopted</u>	FY 2013 <u>Adopted</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Current Property Taxes	\$195,496,802	\$206,647,364	\$11,150,562	5.7%
Other Property Taxes	3,050,000	3,400,000	350,000	11.5%
Intergovernmental	19,773,665	21,255,618	1,481,953	7.5%
Charges for Services	6,181,308	4,464,071	(1,717,237)	-27.8%
Miscellaneous Revenue	1,497,850	1,057,490	(440,360)	-29.4%
Transfers from Other Funds	<u>1,029,555</u>	<u>845,402</u>	<u>(184,153)</u>	-17.9%
<b>TOTAL</b>	<b>\$227,029,180</b>	<b>\$237,669,945</b>	<b>\$10,640,765</b>	<b>4.7%</b>

**Property Taxes**

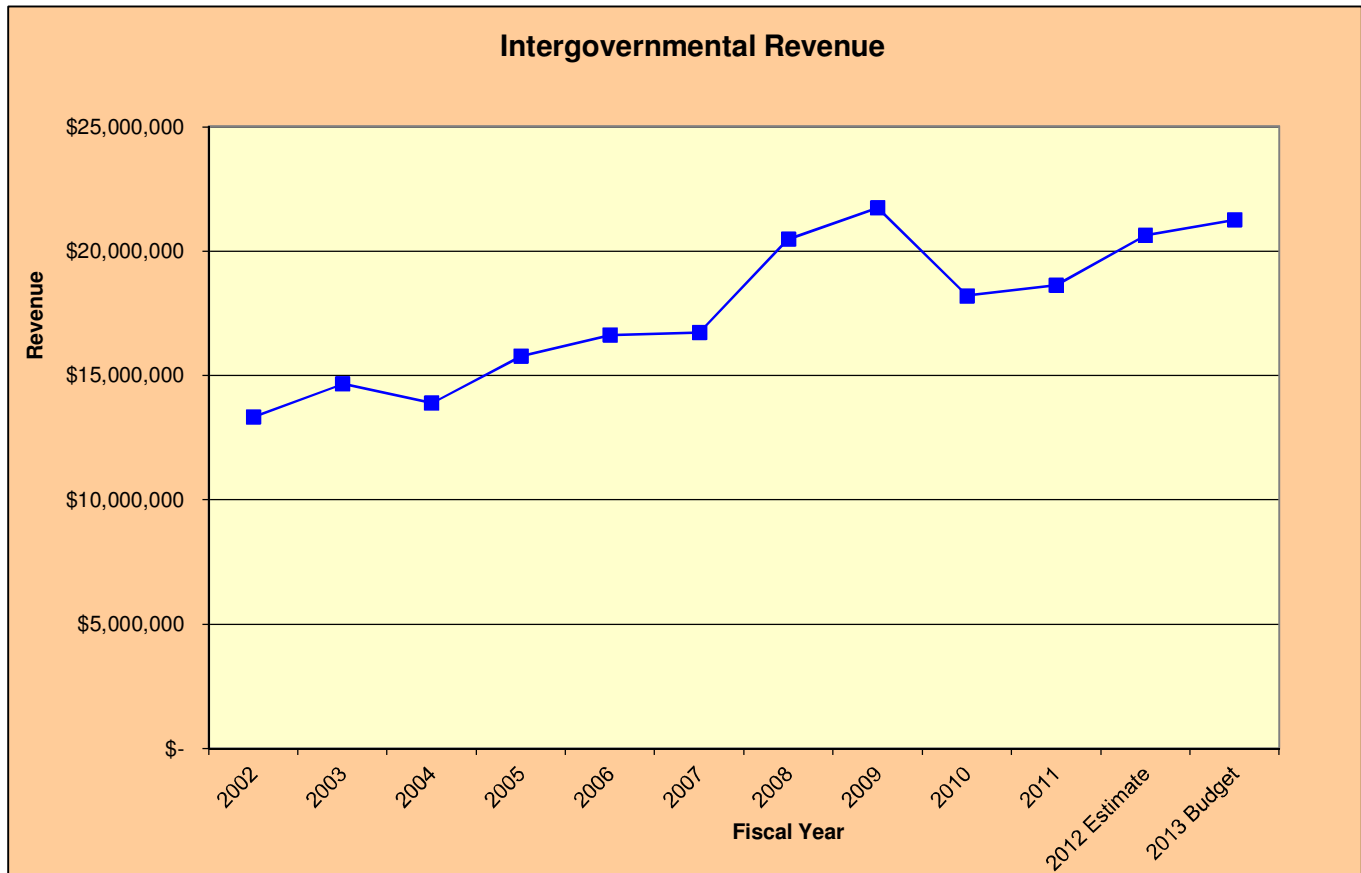
Approximately 87% of the annual General Fund budget is financed through current year property tax revenue. Increases in property tax revenue are generated from growth in the value of taxable property and increases to the tax rate. As a fully developed community, growth in the town's taxable property is through re-use of existing property which has been reduced with the economic climate. The fiscal year 2013 budget will also reflect the implementation of the 2011 property revaluation which established new values for all real property. The new values will impact each property owner differently depending on the change in the underlying assessment used to establish property taxes. Additionally, property owners will be impacted by the decision to phase-in the 2006 property revaluation and then suspend the phase-in after two years. Property owners who did not have their new value completely phased-in during the first two years of the phase-in will have this additional value reflected in their new assessments.

The successful collection of current year property taxes is a critical element in determining property tax revenues and effectively managing the budget during the fiscal year. The Town historically collects over 99% of the current year taxes levied. The deterioration of the economy was expected to affect the actual collection of property taxes; especially as unemployment increased and the real estate market softened. The Town assumed a 99.0% collection rate in developing the current year budget. The collection of the second installment of property taxes on real estate in January 2012 was consistent with our experience in prior years and the 99.0% collection rate will be achieved. Property tax collections fell to 98% during the last recession (1991-92). A one-tenth change in the collection rate equates to \$206,647 in revenue. The fiscal year 2013 budget continues the 99% collection rate assumption. The Town has also been very successful collecting delinquent taxes and interest and lien fees. The fiscal year 2013 budget increases prior year tax collections by \$350,000.



### Intergovernmental Revenue

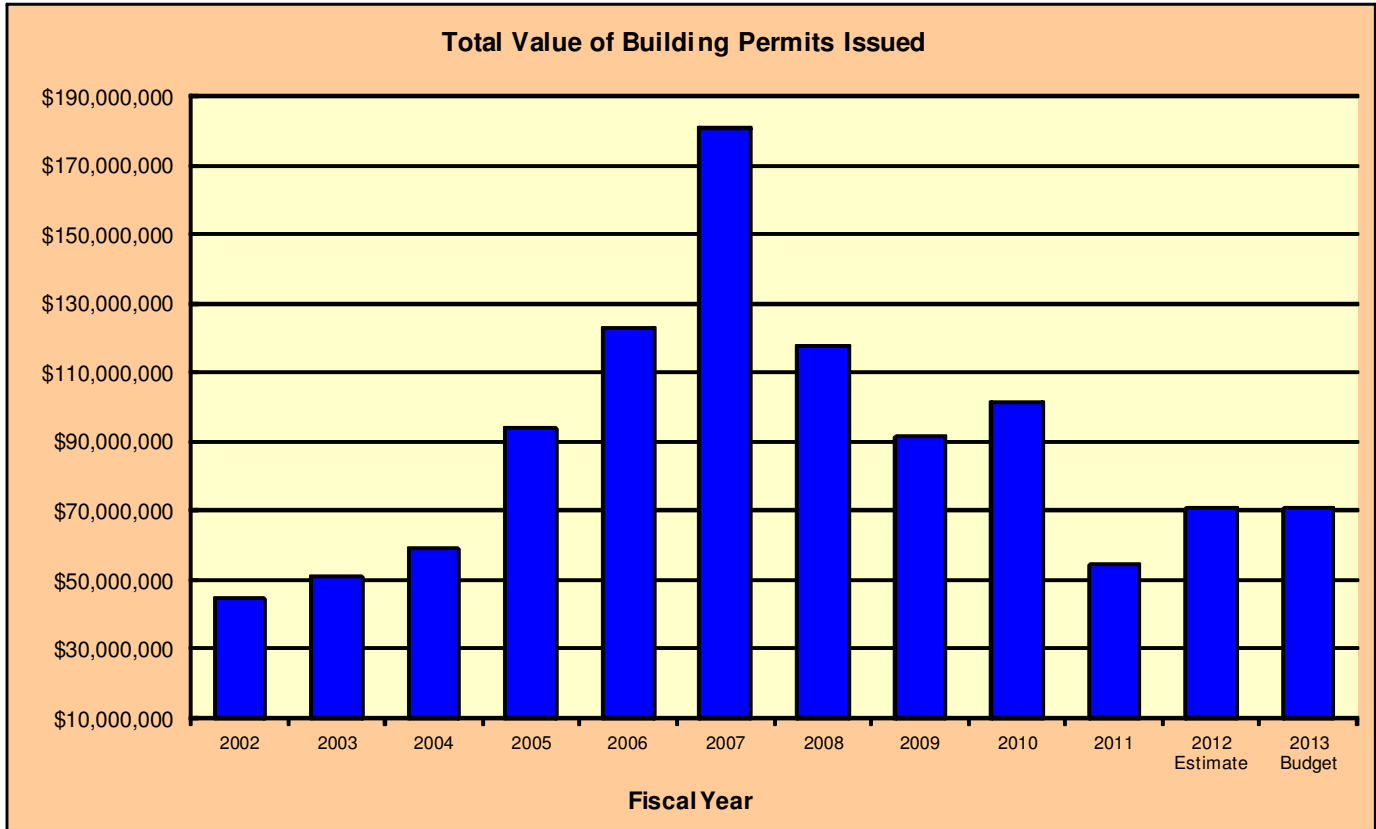
Intergovernmental revenue to West Hartford for fiscal year 2012 reflected the proposals outlined in the Governor's proposed fiscal year 2012 State budget. After the adoption of the Town's budget for fiscal year 2012, the General Assembly adopted a State budget with significant changes to the Governor's proposals. The Governor had proposed eliminating the reimbursement of lost property taxes on new equipment purchased by businesses. The conveyance tax on real estate transactions doubled under the Governor's proposal increasing West Hartford's revenue \$1,000,000 and a new sales tax on retail sales within the community was estimated to generate \$404,000. While both of these taxing options were adopted by the General Assembly, the method of distributing these funds to the towns differed from the Governor's proposal. Rather than going directly to the towns, the additional conveyance tax and increased sales tax went to the State to fund a municipal revenue sharing fund grant equal to the Town's fiscal year 2011 Machinery Exemption grant (\$648,560) and the remainder distributed as a Property Tax Relief grant, estimated to be \$544,961 for West Hartford. The net effect of these changes in State Aid for fiscal year 2013 is an increase of approximately \$790,000 from the fiscal year 2012 adopted budget. The impact on the General Fund is a shortfall of approximately \$210,000 as the anticipated additional \$1,000,000 in conveyance tax revenue will not be received. The Governor's proposed budget for fiscal year 2013 reflects the changes made by the General Assembly to the fiscal year 2012 budget. In addition, the Governor's budget includes an additional \$900,000 in ECS grant funding for West Hartford in fiscal year 2013.



### Charges for Services

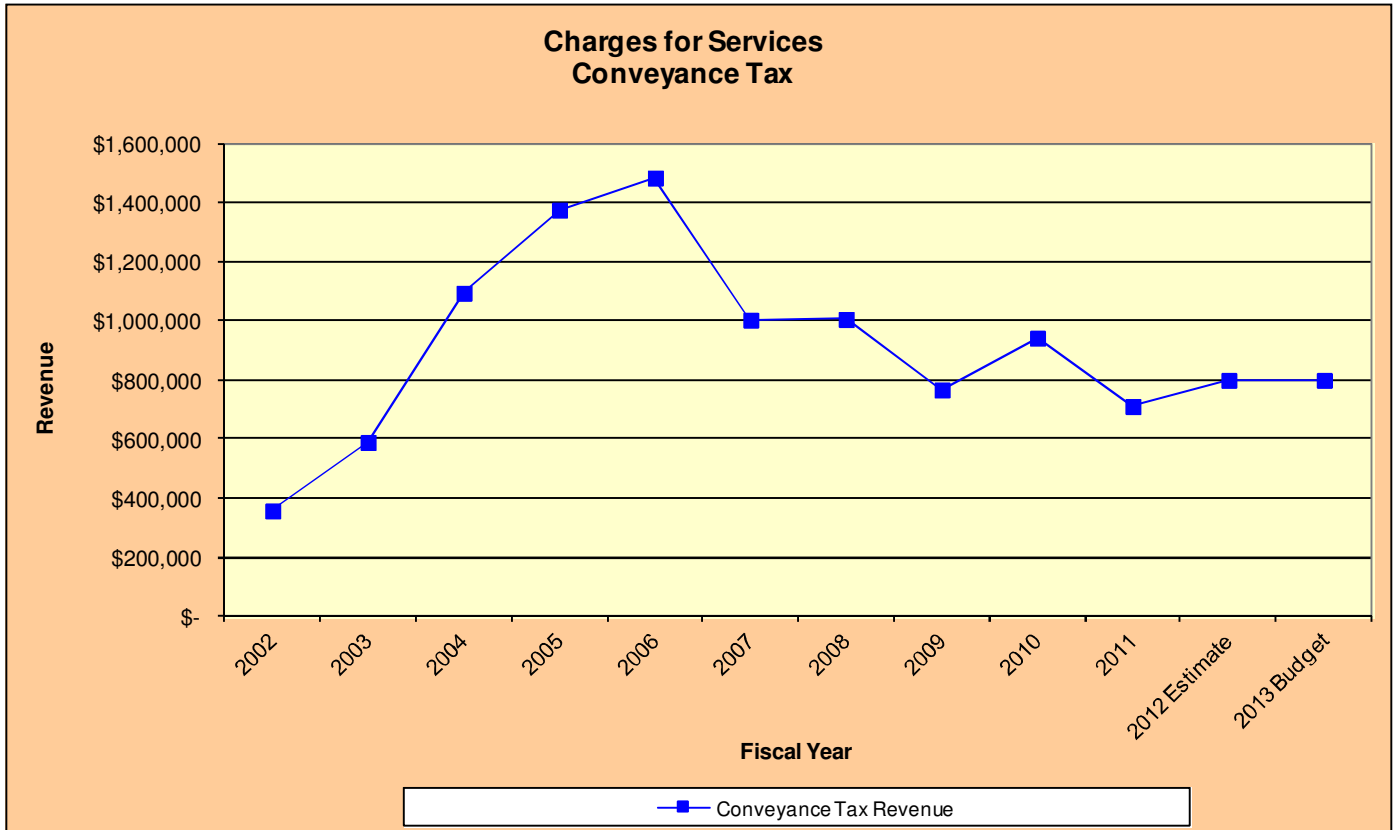
#### **Building Permits**

Estimated building permit revenue is expected to remain flat at \$1,200,000 for fiscal year 2013. The building permit fee is calculated based upon the value of the improvements. Permit revenue, estimated to be \$1,200,000 when the budget was originally adopted for fiscal year 2012, is projected to be \$1,000,000 for the year. The value of permits is expected to increase in fiscal year 2013 due to improving economic conditions.



#### **Real Estate Transactions**

The Town receives fees established by the State of Connecticut for real estate transactions. Land recording fees are received for the actual recording of legal documents and conveyance taxes are charged on every transaction. The revenue anticipated for fiscal year 2012 assumed passage, by the General Assembly, of the Governor's proposal to double the municipal tax rate on real estate conveyances. The budget for fiscal year 2012 assumed this change; however, as discussed previously, the Governor's methodology for distributing the new, additional conveyance tax revenues was adjusted by the legislature. As such, conveyance tax revenue for fiscal year 2013 is adjusted to remove the additional \$1,000,000 anticipated in the adoption of the fiscal year 2012 budget. The adopted fiscal year 2013 budget also removes the additional \$200,000 in conveyance tax revenue anticipated based upon increased activity which has not materialized during the current fiscal year.



### Other Charges for Services Revenues

Receipts from the issuance and payment of parking tickets are reflected as revenue in the General Fund budget. The fiscal year 2013 budget moves a portion of anticipated revenue from parking tickets to the Parking Lot Fund. Parking ticket revenue has increased from \$372,000 in fiscal year 2009 to an estimated \$800,000 in fiscal year 2012. The addition of parking monitor positions is believed to be resulting in improved compliance with parking laws and increased enforcement has resulted in additional parking tickets. Since these positions are funded by the Parking Lot Fund, the fiscal year 2013 reflects one-half of the estimated parking ticket violation revenue (\$400,000) in the Parking Lot Fund, to reimburse the fund for the cost of parking monitors, and one-half in the General Fund. In addition, included in the fiscal year 2012 budget was revenue of \$100,000 from new fees to be established. This assumption has been removed from the adopted fiscal year 2013 budget.

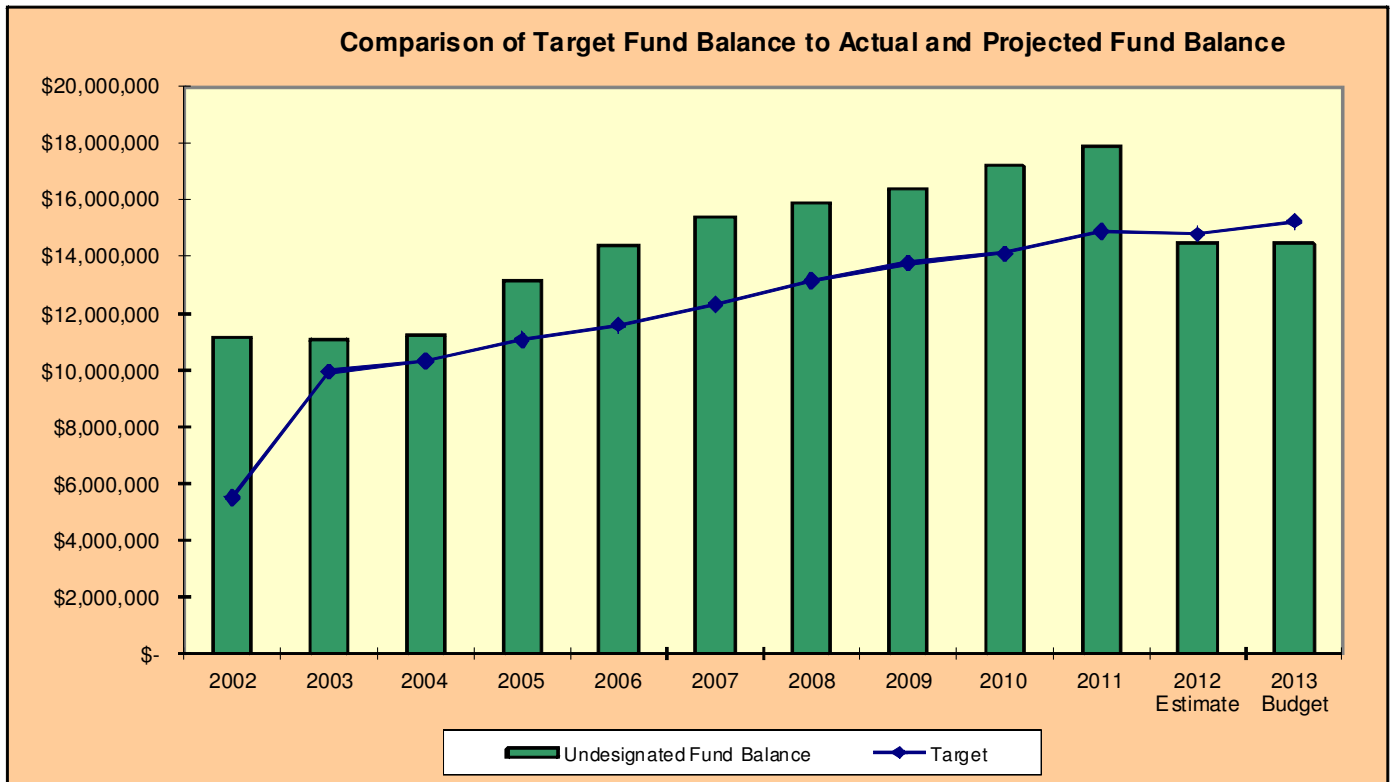
### Miscellaneous Revenues

#### **Investment Income**

The Town invests available cash to generate interest income which is used as a revenue source in the annual budget. Interest income was increased to \$1,100,000 in the fiscal year 2012 budget based upon an assumption of interest rates increasing as part of the economic recovery. Unfortunately, interest rates have declined during the current fiscal year and anticipated revenue from investment income is projected to be only \$508,000 in fiscal year 2012. Historically, the Town has invested its cash in the State Treasurer's Short-Term Investment Fund which is currently yielding 0.10%. Due to these low rates, during fiscal year 2012 the Town is investing in money market accounts at five financial institutions at rates between 0.2% and 0.75% to provide additional investment income (\$250,000) above what STIF would have generated. The fiscal year 2013 budget reduces estimated investment income to \$550,000.

#### **Use of Fund Balance**

Fund balance is cash that the Town has accumulated from prior year budgets when revenues exceeded actual expenditures. As of June 30, 2011, undesignated fund balance totaled \$17,887,753 or 8.2% of General Fund expenditures. During the current fiscal year, the Town appropriated \$2,975,000 of the fund balance to finance the local share of the costs for the clean-up from Storm Alfred. This will reduce the fund balance in the General Fund to \$14,471,163 or 6.4% of General Fund expenditures as of June 30, 2012. The fiscal year 2013 budget does not anticipate any use of fund balance to cover operating expenditures.



**SUMMARY OF EXPENDITURES**

	<u>FY 2012</u> <u>Adopted</u>	<u>FY 2013</u> <u>Adopted</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
<u>Town Services</u>				
Wages & Salaries	\$36,043,372	\$37,279,923	\$1,236,551	3.4%
Operating Expense	21,094,650	21,082,864	(11,786)	-0.1%
Capital Equipment	8,000	-	(8,000)	-100.0%
Fringe Benefits & Insurance	<u>22,945,670</u>	<u>26,365,685</u>	<u>3,420,015</u>	14.9%
Total Town Services	\$80,091,692	\$84,728,472	\$4,636,780	5.8%
 Board of Education	 \$132,827,066	 \$138,769,729	 \$5,942,663	 4.5%
 Capital Financing	 <u>\$14,110,422</u>	 <u>\$14,171,744</u>	 <u>\$61,322</u>	 0.4%
 Total Expenditures	 \$227,029,180	 \$237,669,945	 \$10,640,765	 4.7%

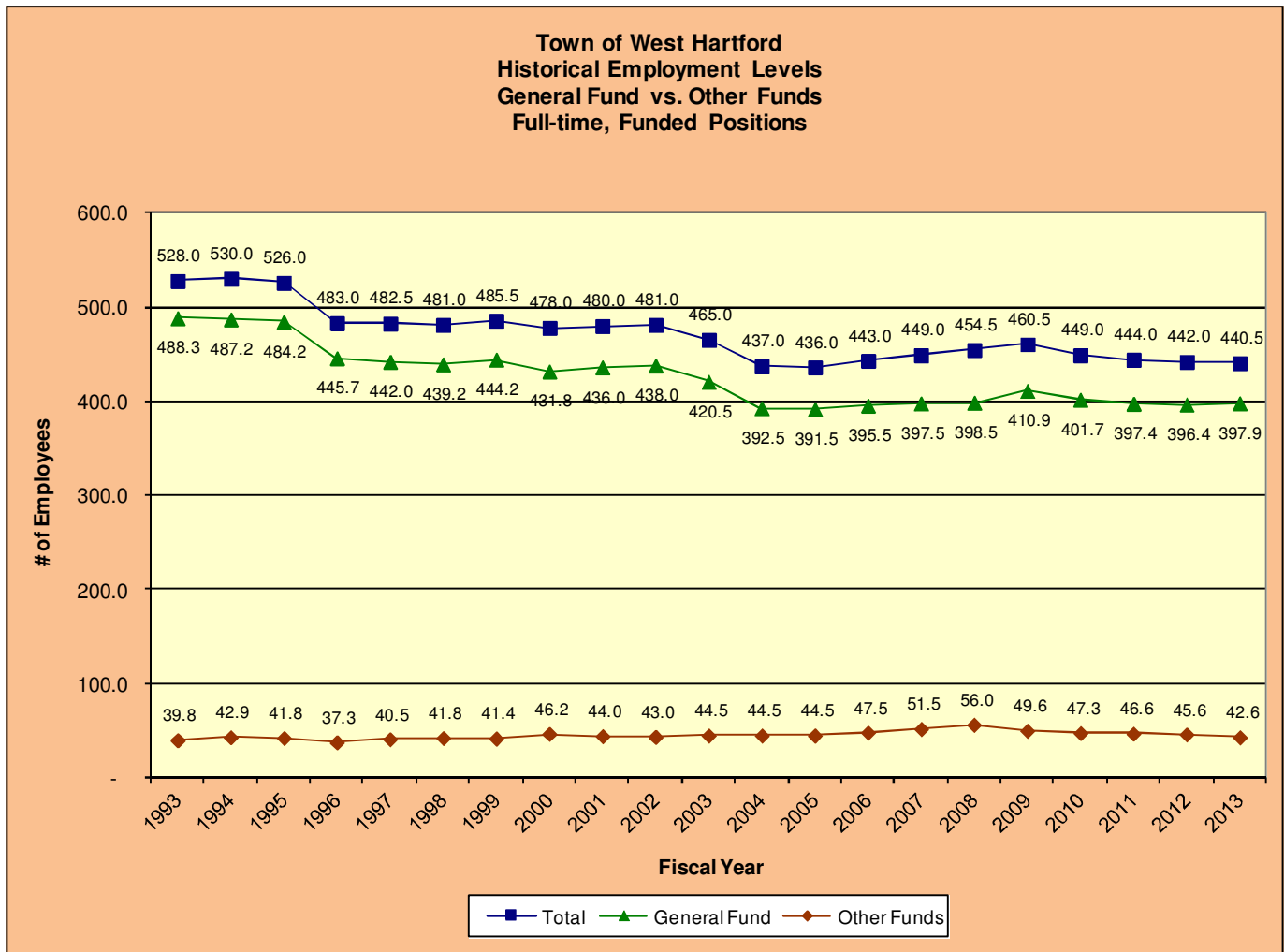
**Town Services**

**Wages & Salaries**

Regular payroll represents the wages and salaries associated with all full-time employees. The budget for fiscal year 2013 includes cost of living increases for union employees as amended by the wage concessions negotiated for fiscal year 2010 with the nine unions that represent full-time employees. These wage concessions continue to have an on-going savings in salary costs as employee earnings are less each year than they would have been without the concessions. In fiscal year 2013, this salary savings is in excess of \$518,000. There are cost of living increases included in the fiscal year 2013 budget for all non-union full-time positions. The consolidation of IT management with the Public Schools will eliminate one-half of an Information Technology Manager position. Considerable turnover in the Fire Department from retirements reduces budgeted regular payroll costs by \$145,087. A Police Officer position (\$77,882) is transferred from the Parking Lot Fund to the General Fund and \$52,000 in regular payroll costs are transferred from the Community Development Block Grant Fund as a result of reduced grant funding. The fiscal year 2013 budget includes an assumption of a hiring lag in the Police Department of \$300,000, an increase of \$150,000 from the fiscal year 2012 budget. In addition, a general hiring freeze budgeted to save \$100,000 in salary costs in fiscal year 2012 is not included in the fiscal year 2013 budget. Current contracts call for the following increases for unionized full-time employees:

<u>Bargaining Unit</u>	<u>COLA</u>	<u>Contract</u> <u>Expiration</u>
International Association of Firefighters AFL-CIO, Local 1241	0.00%	6/30/12
West Hartford Police Officers' Association	5.75%	6/30/13
Public Safety Dispatcher Union, SEIU, Local 2001	2%/2%	6/30/13
Local 1142 of Council No. 4 AFL-CIO	2%/2%	6/30/14
Professional/Management Union, SEIU, Local 2001	2%/2%	6/30/13
Grounds Maintenance Union, SEIU, Local 2001	2%/2%	6/30/13
Buildings Maintenance Union, SEIU, Local 2001	2%/2%	6/30/13
Clerical Union, SEIU, Local 2001	2%/2%	6/30/13
Supervisory Union, SEIU, Local 2001	2%/2%	6/30/13

Note: SEIU and AFSCME unions receive increases on 7/1/2012 and 1/1/2013.

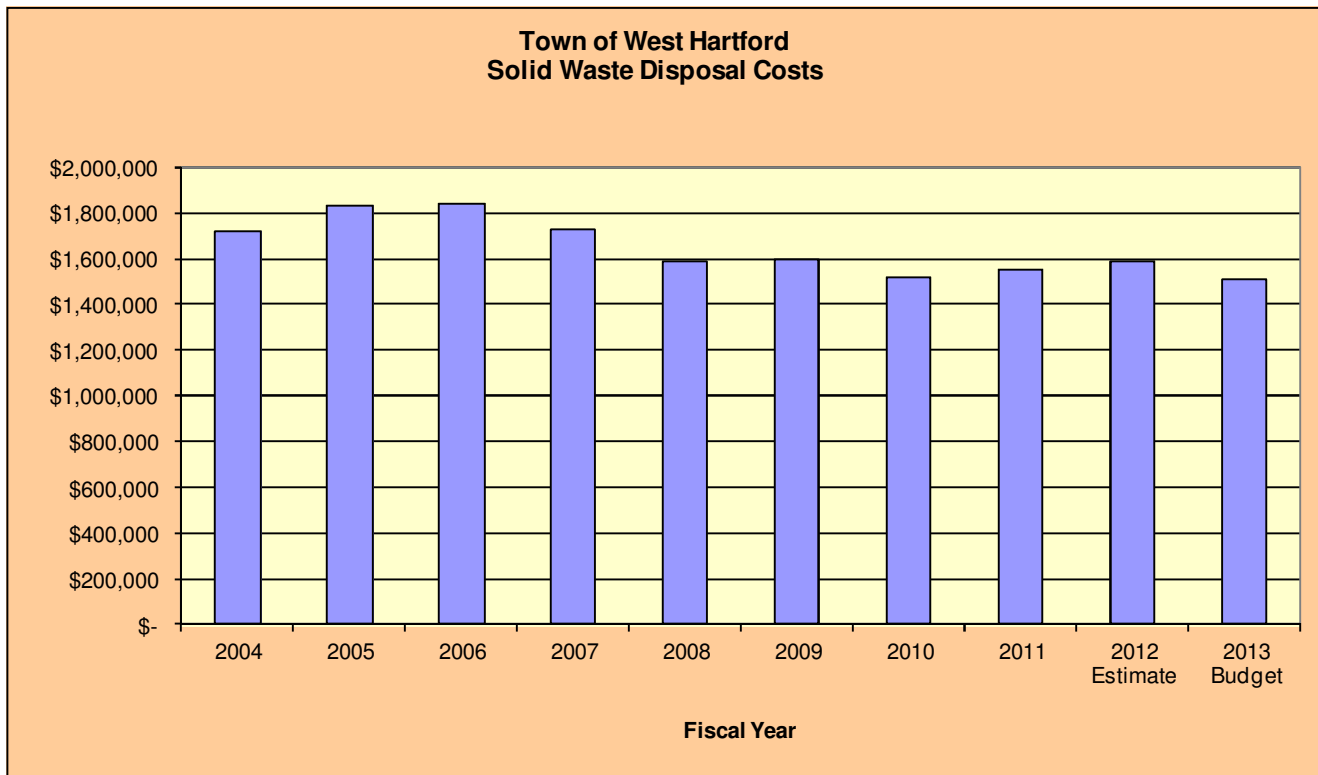


There are cost of living increases for all part-time employees, additional temporary payroll costs in the Library to compensate for the loss of a full-time position, a new part-time Network Engineer position in the Information Technology Department (\$31,990) and additional part-time hours (\$9,000) in the Revenue Collection Office for reconciling cash deposits. In addition, \$43,000 in poll worker costs in the Registrar of Voters Office are transferred from professional services to temporary payroll to comply with IRS regulations. There are reductions in temporary payroll in the Police Records Division (\$25,000) and the Building Inspection Division (\$16,100). Overtime in the Fire Department is increased by \$200,000 to more accurately reflect the actual cost of overtime mandated by minimum staffing requirements in the collective bargaining agreement with the Fire Union.



### Operating Expenses

All discretionary operating expense appropriations have been carefully examined and reductions have been made as appropriate. There is a decrease in operating expenses of \$11,786 despite certain rising costs. For instance, the Town's contribution to the Metropolitan District Commission (MDC) for sewer services is based upon the MDC's adopted budget and the Town's tax levy as a proportion of all the MDC members' tax levy. The Town's contribution in fiscal year 2013 increases \$200,800. Electricity costs increase by \$69,338 because the adopted fiscal year 2012 budget used reserve funds. The actual impact of the use of reserve funds in fiscal year 2012 on the fiscal year 2013 budget has been reduced by declining consumption and favorable pricing. There is also a modest increase in the cost of gasoline (\$43,700) as prices have moved higher. The Town's contract with the Connecticut Resource Recovery Authority (CRRA) expires on November 1, 2012 for the disposal of solid waste and recyclables. The Town is currently negotiating a new contract and anticipates a reduction in the current \$69/ton tipping fee (\$142,077). There is also a reduction in the fiscal year 2013 budget in the cost of contractual services for the bulky waste collection program (\$175,650). The contract was changed from a flat fee per household based upon the total number of households to a fee based upon the actual number of bulky waste collections.



**Employee Benefits & Insurance**

Risk management expense represents the cost of employee health benefits, insurance, self-insurance and workers compensation programs and is allocated amongst the budgets of the BOE, Town and other funds. The Town's General Fund risk management expense increases \$1,599,612 in fiscal year 2013. Town Health Program expense increases by \$1,218,100 in fiscal year 2013 entirely the result of a \$1,300,000 increase in the contribution for retiree health (as discussed below). Active employee health costs remain flat based upon favorable claims experience in the current fiscal year. The contribution to the workers compensation program is increased by \$275,185 and the heart & hypertension program increases by \$57,242 as the result of higher claims activity. The self-insured program increases slightly (\$7,616) and the insured program increases \$41,469 as the result of anticipated premium increases from insurance carriers.

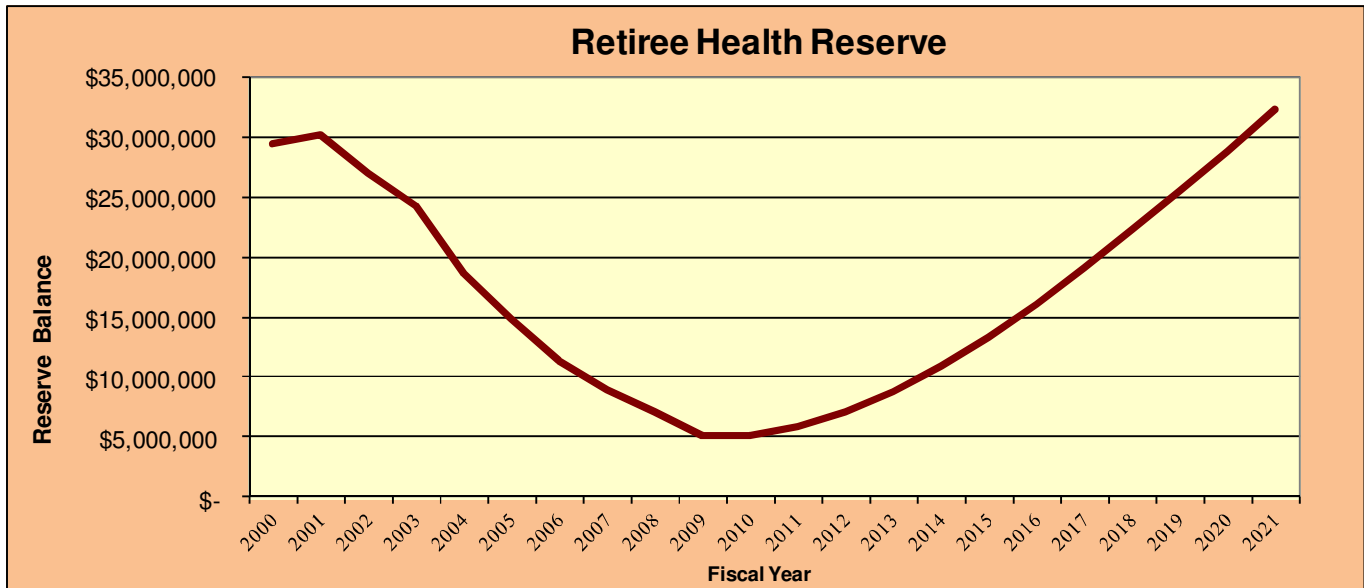
**Retiree Medical & Pension Benefits**

The Town provides medical benefits to retired employees in addition to a pension benefit. The total liability for retiree medical benefits, last measured on July 1, 2011, is \$107,489,500. These benefits are paid from a retiree health care reserve fund established in 1984. The annual General Fund budget makes a contribution to the reserve fund each year and these funds are invested in fixed income and equity securities. A long range funding plan for the retiree health care reserve fund was implemented in fiscal year 2005 in response to the elimination of the General Fund's contribution to the reserve fund in fiscal years 2003 and 2004 and the continued use of the reserve to pay all retiree health care claims. The fund balance of the reserve fund declined from \$27,012,296 on July 1, 2003 to \$18,585,066 on June 30, 2004. The retiree health funding plan was developed to gradually restore the General Fund contribution to the reserve fund to a level sufficient to preserve the financial viability of the fund. The funding plan also maintained the financial benefit of the reserve fund as retiree health claims paid from the reserve fund exceed the annual General Fund contribution to the reserve fund. The General Fund contribution to the retiree health care reserve fund will increase annually from \$5,580,000 in FY 2010 to \$8,880,000 in FY 2014.

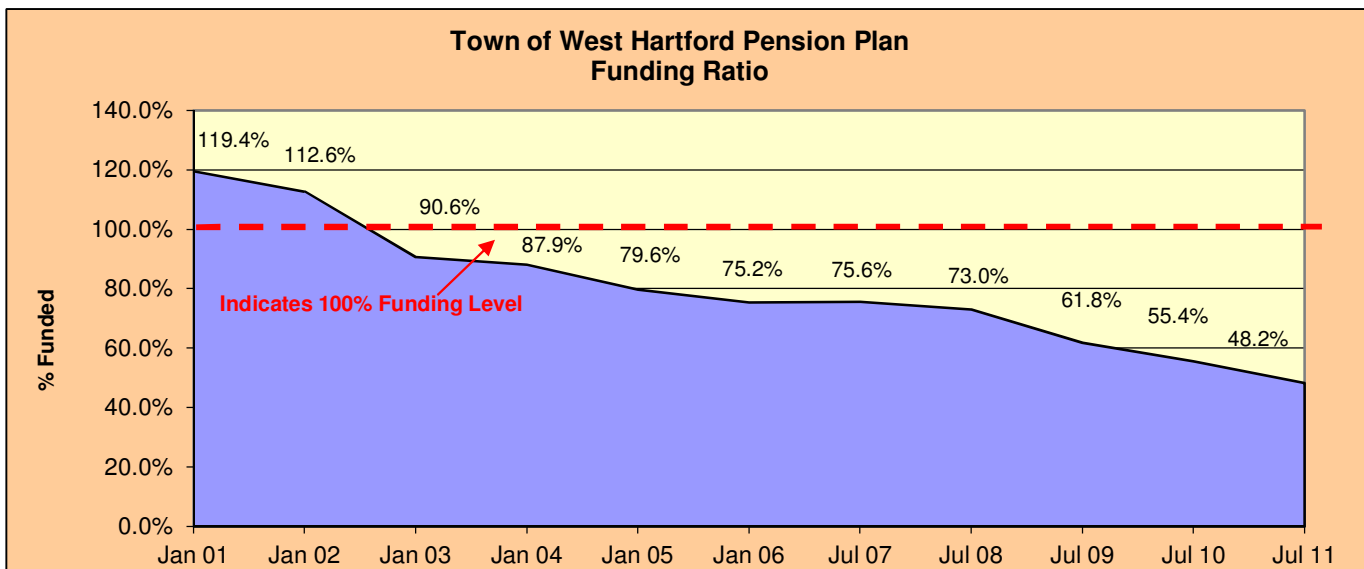
The total contribution to the retiree health reserve fund in fiscal year 2013 is \$8,130,000, an increase of \$1,300,000 from the current fiscal year. This increase reflects the planned increase in the contribution as required by the long-term financial plan and the end of the federal retiree reinsurance program which had funded \$500,000 of the contribution in the current fiscal year.

After almost ten (10) years of declining fund balance, while all retiree claims were paid out of the fund and the contribution was gradually increasing, the reserve fund balance has begun growing again. The transfer to the reserve fund and other revenue from employee contributions and investment income is expected to exceed the estimated claims payments, allowing the fund to grow.

The Town has extended the retirement eligibility for new employees hired after 2003 which significantly lowers the liability associated with retirement health care. An additional 5 years of age was added to public safety employee's retirement eligibility and non-public safety employees hired after 2003 have a retirement eligibility age of 65. A trust fund has been established for these employees and the annual required contribution to the trust for the cost of retirement health care benefits earned was deposited in the fund from employee contributions.



Annual contributions to the Pension Fund were resumed by the Town in 2003 when its over-funded status was reversed due to investment performance. As the liability for post retirement benefits continued to increase, changes were made to the eligibility requirements for new town employees. These changes added ten (10) years to the age requirement for early and normal retirement for non-public safety employees and five (5) years of service for public safety employees. These changes have already begun to moderate and reduce the normal cost of post retirement benefits although the past service costs continue to increase as a result of investment losses from the stock market decline. The contribution to the Pension Fund is based on an actuarial recommendation. The total contribution for fiscal year 2013 is \$14,167,000, an increase of \$2,519,000 from fiscal year 2012 and is split between the budgets for the BOE, Town and other funds. The Town General Fund budget portion of the increase is \$1,660,035. The increase in the required contribution reflects the investment losses in the Pension Fund as a result of the recent economic environment which are phased-in on an actuarial basis over five years and updated actuarial assumptions on mortality rates, salary scale growth and future anticipated investment returns.



### **Public Schools**

The fiscal year 2013 education budget totals \$138,769,729, an increase of \$5,942,663 or 4.5%.

- Salaries represent the largest portion of the education budget and they are increasing by \$2,560,000 or 2.91%. Settled union contracts either have no general wage increase or only modest wage increases.
- Employee benefit expense is increasing by \$1,770,000 or 6.7%. Medical expenses are increasing by \$1,090,000 or only 5.35% based upon favorable claims experience in the current fiscal year and no increase in the contribution for retiree health care reserve fund. The contribution to the Pension Fund increases by \$660,000 or 23% based upon the recently completed actuarial valuation reflecting the continued phasing in of investment losses from prior years and changes to the valuation assumptions regarding mortality and the rate of future investment earnings.
- Tuition costs represent the biggest line item increase. This increase comes from three areas. First, the cost for inter-district magnet school tuition is projected to be over \$330,000 higher than was budgeted in fiscal year 2012. Second, net special education tuition costs are projected to be \$398,000 above the fiscal year 2012 budget. But the biggest increase is due to a projected decrease in the excess cost reimbursement rate from 75% to 62% which increases the budget by \$570,000. As recently as fiscal year 2009, the State reimbursed the district for 100% of the excess costs for special education students with high costs. In fiscal year 2013, the public schools will be responsible for \$1,670,000 in excess costs previously paid for by the State.

### **Capital Financing**

The annual appropriation for capital financing is determined by the Town's long range Capital Improvement Program. The Town's Capital Improvement Program (CIP) covering fiscal years 2013-2024 invests \$163,695,000 in West Hartford. While the CIP continues the long-term commitment to the maintenance of public schools, roads, storm sewers, parks and other public infrastructure, it also reflects the economic challenges we are currently facing. The capital program ensures that funding for the necessary maintenance of streets, schools and town buildings will be funded. However, the development and replacement of other assets has been deferred or eliminated.

Capital financing costs includes three components: principal and interest payments on General Obligation bonds that have already been issued; debt administration costs for the issuance of new debt; and, a transfer to the Capital Non-Recurring Expenditure (CNRE) Fund to finance capital projects that are not financed via long-term debt (per the guidelines of the Town's capital financing policy). The contribution for fiscal year 2012 (\$690,000) was made in fiscal year 2011 from surplus funds. The contribution for fiscal year 2013 is \$600,000.

The Town refunded outstanding debt twice in fiscal year 2010 in order to take advantage of favorable interest rates. The fiscal year 2013 debt service requirements include \$10,130,000 in principal and \$3,886,319 in interest payments. In order to fund this debt service, the General Fund will contribute \$13,481,744, a reduction of \$538,678 from the current General Fund appropriation, and the balance of \$534,575 will come from the debt service fund, established with proceeds from a litigation settlement and bond premiums.